



**GOVERNOR'S GROWTH
PLANNING COUNCIL 2 0 0 1**
Property Tax Subcommittee Report

Subcommittee Members

- Peter Marino, Chair (Rhode Island Public Expenditure Council)
- Ned Connors (Grow Smart Rhode Island)
- Richard Godfrey (Rhode Island Housing)
- Chris Modisette (Rural Lands Coalition)
- Kevin Nelson (Rhode Island Statewide Planning Program)
- John O'Brien (Rhode Island Statewide Planning Program)
- Jennifer Perkins (Rhode Island League of Cities and Towns)
- Rick Richards (Rhode Island Department of Education)
- Paul Sams (Water Resources Board)
- Senator Eleanor Sasso (Rhode Island Senate - District 14)
- Scott Wolf (Grow Smart Rhode Island)

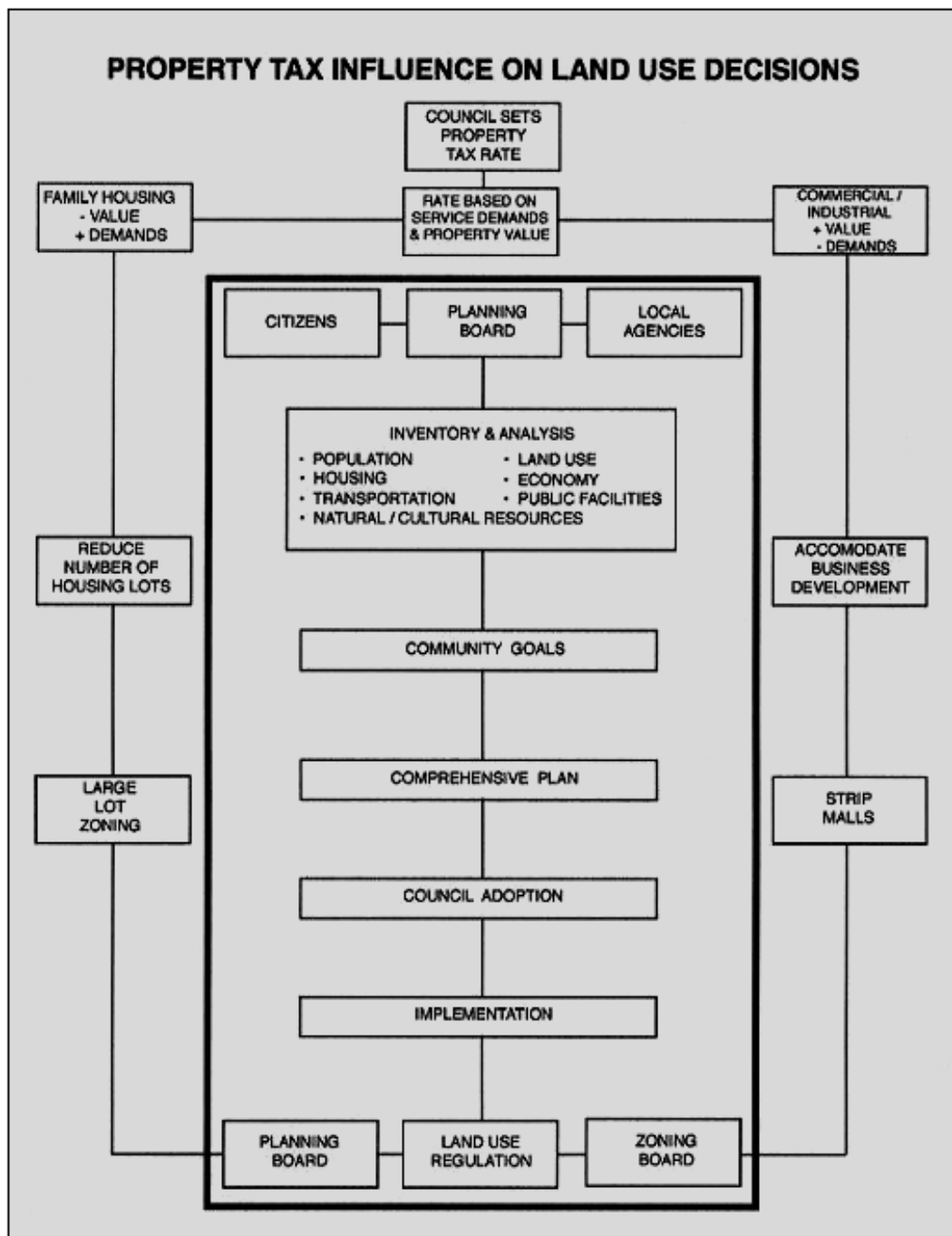
The task of the Subcommittee was to develop a series of recommendations for the Growth Council to consider that dealt with policies and programs that could reduce the influence that property taxes have on land use decisions.

The Subcommittee agreed the first step in the process is to provide effective information on the linkage between property taxes and land use patterns, the formal and informal decision making process in land use planning, and the gaps in the process that require the Council's attention. The following represents some of the information discussed at Subcommittee meetings:

- Property tax data and analysis as it relates to land use as discussed in the Grow Smart Rhode Island Study – *The Costs of Suburban Sprawl and Urban Decay in Rhode Island (12/99)*
- Property value shifts in the State since 1969, as well as information presented in RIPEC's publication – *Shifting Property Values in Rhode Island (3/00)*;
- A schematic of the formal decision tree for land use planning in Rhode Island with an overlay of the more informal, dynamic decision process that actually occurs; and
- A pre-release review of the Southern New England Forest Consortium, Inc.'s report – *Land Conservation, Development and Property Taxes in Rhode Island (Expected Release – 12/00)*.

Land Use Decision Making Process:

The property tax assessment process places a value on a parcel of land generally according to its "highest and best use". This use is usually set within the context of what types of uses are allowed by local land management ordinances. These ordinances are adopted, under Rhode Island law, to implement a community's comprehensive plan. That plan is based upon an examination of a community's current and future needs as well as their vision for how they would like to develop.



However, while the over-all goals set forth in local comprehensive plans provide a framework for communities, it may be the case in some instances that property tax revenue pressures influence some land-use decisions. The diagram above portrays both the formal and informal land-use decision processes many communities experience. Essentially the formal process is portrayed within the boxes in the diagram. This describes the comprehensive planning process that includes adoption of the plan by the governing body as well as enactment and administration of primary implementation measures, such as zoning and subdivision ordinances.

The informal process plays a critical role in the local land-use decisions. While property taxes are one of several variables affecting this informal process, many land uses could be influenced by their perceived contribution to the fiscal capacity of the community. For instance, while the comprehensive plan may recognize the need for a variety of housing options, moderate-income housing may not be seen as carrying its own tax weight and is therefore discouraged through land use techniques such as large lot zoning. Conversely, certain types of commercial and industrial development are seen as good for the tax base and therefore are accommodated through zone changes or other modifications.

Subcommittee Recommendations:

While the Subcommittee found there are many reasons for sprawl (as defined in Grow Smart Rhode Island's report - *The Costs of Suburban Sprawl and Urban Decay in Rhode Island* - 12/99), it was clear that property tax pressures may play a role in local land-use decision making. The Subcommittee attempted to focus efforts on several key issues that would add value to the discussion of the relationship between property tax and land use decisions. Therefore, the Subcommittee focused on six recommendations to the Growth Council:

Summary:

- Continue discussions regarding School Funding Reform;
- Initiate an in-depth, statistically significant survey to examine Rhode Island housing choices, location decisions and issues motivating location choices;
- Develop a comprehensive analysis of the advantages and disadvantages of various methods of regional property tax sharing;
- Develop a program to assist municipalities in condemning or purchasing vacant lot sites to reinvigorate under-used land;
- Conduct an analysis on how the State can work towards more uniform assessment practices; and
- Ensure that future Geographic Information System (GIS) development incorporate property tax related data.

Encourage State policymakers to continue the discussions regarding education finance reform.

Discussion: A key feature of Rhode Island's property tax structure is how the State finances its public education system. Property taxes fund nearly 60.0 percent of the \$1.3 billion spent in support of public education, with communities experiencing different levels of ability to meet their local obligations. Over-reliance on the property tax to fund schools may be related to urban dis-investment and issues related to sprawl. While it was beyond the purview of the Subcommittee to develop an alternative funding program for Rhode Island schools, the Subcommittee felt that it was critical to be on record in support of reforming the State's education financing structure. The Subcommittee felt that the Governor's Task Force on School Funding took a positive step in outlining a direction for the State.

Initiate an in-depth, statistically significant survey to examine Rhode Island housing choices, location decisions and issues motivating choices.

Discussion: According to recent RIPEC research, nearly _ of all new property value created in the suburban and rural communities over the past 25 years was a result of residential development. For example, residential property value as a percent of total property value in suburban and rural communities increased from 63.7 percent in 1970 to 75.2 percent in 1995. Conversely, while commercial and industrial property values have grown at faster rates in suburban and rural communities than in urban communities, these classes of property as a percent of total property value have declined from 17.1 percent in 1970 to 15.1 percent in 1995.

Therefore, the Subcommittee recommends that the Growth Council initiate a survey to understand what influences homeowner location decisions in Rhode Island. The Subcommittee felt that rather than relying on anecdotal information regarding the role the property tax plays in residential location decisions, it was important to conduct a thorough analysis based on survey results. This will provide information that could be useful in developing growth management public policies and understanding of the role of the property tax in residential housing choices. The Property Tax Subcommittee estimates that such a survey would require no more than \$30,000 in funding.

Develop a comprehensive analysis of the advantages and disadvantages of various methods of regional property tax sharing to determine if there are appropriate programs for Rhode Island communities.

Discussion: While the Subcommittee could not come to consensus on the merits of regional tax sharing programs, it was agreed that further research and analysis of such programs was warranted. This should include systematic review of programs used in other states, as well as sponsoring a forum of key stakeholders involved in the development and implementation of such programs to discuss the issues facing communities.

Regional property tax sharing programs have been designed to share tax benefits associated with new commercial and industrial growth among regional localities. Given the pressure to have diverse and growing property tax bases, municipalities compete for new commercial development, potentially impacting sound regional planning. Given this competitive environment, communities may offer an assortment of tax relief initiatives that further distort local property tax bases and may minimize the impact such development could have on the local tax base.

The State's property tax system can also impact each community's ability to retain and attract new development. For example, Rhode Island's urban communities often have higher effective tax rates and limited developable land relative to their suburban and rural neighbors. This not only limits the tax base in urban areas, it could also adversely affect suburban and rural land use. Some states have used regional tax sharing to redirect a portion of new commercial/industrial property tax revenue in a defined economic region to urban areas.

The proposed analysis will have to explore a range of complex issues, such as the micro and macro impacts regional tax sharing may have on the State, what could constitute a region for tax sharing purposes, and what impact, if any, does regional tax sharing have on land-use planning.

The Property Tax Subcommittee estimates that such an analysis would require no more than \$10,000 in funding if supplemented with current State personnel resources (staff time). Funding will assist in conducting analysis and forums, as well as potential costs to bring in experts from other states to discuss the issue.

Request that the RI Housing Resources Commission, working with the Economic Development Corporation, Department of Environmental Management, and Statewide Planning, develop a program with appropriate funding to facilitate the transfer of ownership of vacant or abandoned property to appropriate State or local agencies. Based on needs identified by the neighborhoods, lots could be reused for housing or complementary commercial uses and/or offered to neighborhood groups for open space or local recreation projects, or sold to adjacent owners.

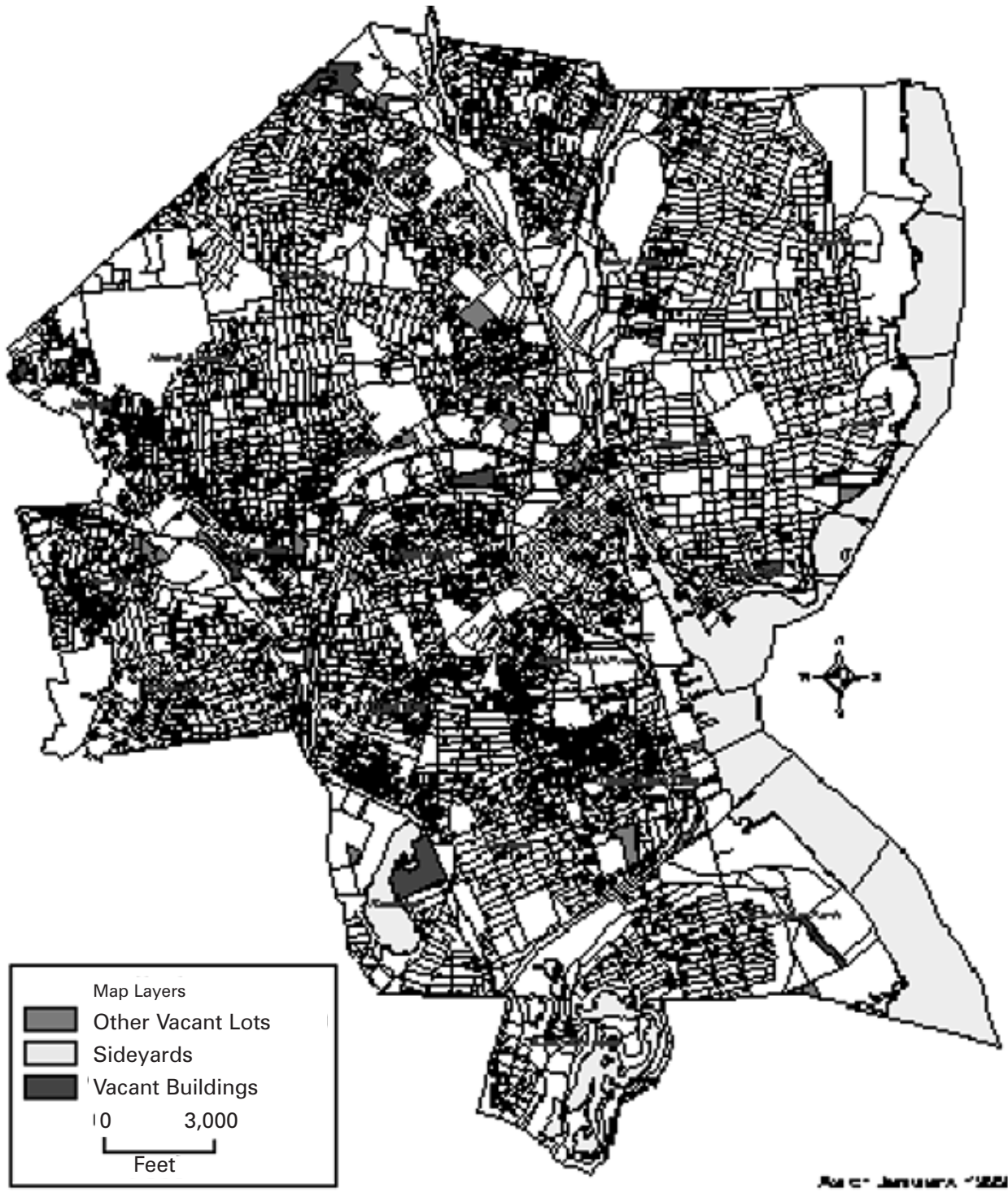
Discussion: In 1998, a private non-profit group, the Rhode Island Environmental Diversity and Educational Forum, conducted a survey to determine what were the main environmental concerns in the inner-city. Vacant lots consistently ranked at or near the top. For residents, vacant lots mean trash, rats, and a depressing sense of decay. For property owners in the vicinity of vacant lots or abandoned property it means depreciation in their property's value. For property taxpayers as a whole it means that they may have to pay more than their fair share to support municipal services. For government officials, vacant and abandoned property may also mean deterioration in the sense of the community and increased burdens on police and fire protection.

Urban communities have high concentrations of abandoned or condemned properties, affecting quality of life issues as well as overall property values. These communities often have limited resources dedicated to demolishing, clearing, and improving these properties. In some instances, owners of abandoned property may not have the financial ability to make improvements. However, some owners may leave property abandoned in the hope that real estate values will increase, thereby enabling the owners to sell their property at a substantial profit without making any of the required repairs or improvements to the property. The graph on the following page shows the vacant lots in Providence.

Remedies should include enforcing environmental regulations to ensure vacant lots are not used for dumping and that owners keep lots clean and safe. A broader strategy could include a program to acquire lots for sale or reuse. The new owners, whether aspiring home owners, adjacent residents, or neighborhood groups, could prove very effective in ensuring that neighborhoods are revitalized. In addition, while not a solution to the issue concerning the concentration of condemned property, a partial remedy to consider might include encouraging additional municipalities to adopt real estate non-utilization taxes (RIGL 44-5.1-1).

Vacant Lots and Buildings

Providence, Rhode Island



Municipalities currently have the power through their redevelopment agencies to condemn or purchase vacant lot sites, which then would be redeveloped according to plan. As an expansion of this concept, the State should develop and fund a program to assist municipalities in redeveloping vacant lot sites. The final disposition of the property could be based on needs identified by the neighborhoods themselves.

Request that the Office of Municipal Affairs conduct a review of recent research and analysis of the State's assessment practices and identify how the State can work towards more uniform assessment and property tax exemption practices.

Discussion: The State received a report entitled - *Towards a Fairer, More Understandable, and Less Costly Property Tax for Rhode Island* - prepared by Almy, Gloudemans & Jacobs in 1996. This report reviewed a range of property tax related issues facing the State and developed recommendations to improve the State's property tax infrastructure. The conclusion of this report was that relative to other states they have analyzed:

"... each of the State's (Rhode Island's) thirty-nine cities and towns has a different system of taxation. The result is a lack of coherence in tax policy. Inconsistent administration of the laws, inefficient systems of property tax administration and an inequitable distribution of property tax burdens."

The report continued by outlining the property tax's strengths and weaknesses in Rhode Island. The report also outlined a range of recommendations that would serve to improve the shortcomings of the administration of the property tax. These recommendations included efforts to move towards more uniform assessment practices. It should be noted that in 1997, the State took a major step forward by reforming the property revaluation process.

More uniform assessment practices will improve the quality of data available as well as the overall administration of the property tax. This in turn will have a positive impact on perceived and real inequities in the property tax. In addition, how communities employ exemptions and credits also has an adverse impact on inter-jurisdictional equity and administration. These locally determined practices not only make inter-local comparisons difficult, they hinder effective property tax administration.

Develop a plan to integrate property tax related data into the State's Geographic Information System (GIS).

Discussion: The Governor's Growth Council has set up a separate GIS Subcommittee to develop a series of recommendations to assist municipalities in developing and maintaining effective GIS programs. The Property Tax Subcommittee believes that adding property tax related data, such as tax parcel descriptions and property values, to these databases will enhance information that will be useful to both State and local policymakers. Given the discussions regarding property taxes and their role in the State and local tax structure, local financial managers and policymakers will be able to develop and understand a wide range of data that directly affects their communities. State policymakers will be able to use this data to develop effective State policies that directly affect property taxes. The GIS Subcommittee should be charged with recommending a strategy to fund this initiative.